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STATE FOR NEA/ELA, NEA/RA
USAID FOR ANE/MEA MCCLOUD AND RILEY
TREASURY FOR MATHIASON AND HIRSON
COMMERCE FOR 4520/ITA/ANESA/OBERG

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SUBJECT: Lafarge takes a chunk of Egyptian cement

¶1. (U) Orascom Construction Industries (OCI) signed an agreement December 10 to sell its Cement Group to France's Lafarge for 8.8 billion (\$12.9 billion). Lafarge will also assume \$2 billion of OCI's debt, bringing the total value of the agreement to \$14.9 billion. Orascom Cement, with 10 plants operating in 9 countries in the Middle East, North Africa and Turkey, a production capacity of 35 million tons/year and annual sales of \$2.6 billion, is the largest cement producer in the Mediterranean Basin. Lafarge claims to be the world's No. 1 cement producer.

¶2. (U) OCI management announced it intends to make an extraordinary dividend payment of \$11 billion (#E302/share) to shareholders in early 2008. An additional \$2 billion of the revenues from the sale will be used to pay down OCI's overall debt. The remainder will be invested in OCI's on-going construction projects, new infrastructure projects and natural gas-driven industries. Nassef Sawiris, owner of OCI, will hold 11.4% of Lafarge, making OCI one of the largest shareholders of Lafarge. The Sawiris family will get two seats on Lafarge's board.

¶3. (U) The Cairo and Alexandria Stock Exchange (CASE) took an initial downward turn on news of the cement sale. On December 10 the benchmark CASE Index lost 2.7% on turnover of #E1,982 million (\$358 million). OCI shares closed at #E521.00, a decrease of 1.9%, on turnover of #E561.8 (\$104 million), or 28% of total market turnover. A few cement companies saw modest gains, with Misr Beni Suef Cement (partially owned by Lafarge) increasing 1.1% to #E121.31, Cement Qena gaining 0.7% to #P78.14, and Sinai Cement rising 0.1% to reach #E73.21. The decline continued on December 11, with OCI shares declining a further 6.6% on a turnover of #E250.7 million (\$4.8 million), to close at #E499.12. OCI rallied significantly on December 12, climbing 5.0% to #E525.05, trading a total value of #E544 million (\$100 million), the highest turnover in the day's session.

¶4. (U) Local analysts believe OCI will move aggressively into the natural gas sector, aiming to replicate its success in the cement sector. Ahmed Shams El Din, a researcher at EFG-Hermes, told us OCI most likely sold the Cement Group - its core business - in part because of GOE plans to end energy subsidies for industry. Using revenues from sale of the Cement Group, OCI can move into the natural gas sector and position itself to as a key player in natural gas and construction, the two sectors leading Egypt's current economic growth.

¶5. (U) Comment: Once considered a "strategic" industry off limits to foreign ownership, Egypt's cement sector now has a large foreign presence. Lafarge and the Greek firm Titan own a combined 76% of Misr Beni Suef Cement. Ciments Francais, a subsidiary of Italcimenti, owns 54% of Suez Cement. The Orascom Cement sale signals continued investor confidence in Egypt's economic recovery.

The Sawiris family's presence on the Lafarge board also highlights Orascom's strategic expansion into the global economy. With Orascom Telecom's investments in Italy's Wind Telecom and Greece's WIND Hellas, the Lafarge deal solidifies Orascom as a major multinational firm, no longer dependent on Egypt's economy alone.

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